



THE CITY OF SAN DIEGO

FACT SHEET

SANDERS URGES COUNCIL'S *CONCEPTUAL* APPROVAL OF BEGINNINGS OF PLAN TO FUND PENSION OBLIGATION

HISTORIC AND FUTURE USE OF TOBACCO SETTLEMENT MONEY IS BUDGET POLICY CALL AND NOT AT ISSUE TODAY

FEBRUARY 6, 2006

Why?

- At present, the Retirement System has a deficit of \$1.4 billion. Assuming no other developments, this is an obligation of the City of San Diego. Unless the City takes bold deliberate steps to reduce the obligation, the interest on the obligation continues to grow every day. Today, Mayor Jerry Sanders is asking the City Council to give their *conceptual* approval to one element of his plan to pay down the pension obligation.
- As a condition of its labor agreements, the City has an obligation to “leverage” the estimated \$18.3 million in savings that came as a result of employees now making a contribution to their own retirement funds. The result would be the reduction of the pension obligation. Unless the City leverages the money by June 30th, the savings will revert back to employees.

What Money is Being Used and How?

- As part of the 1998 Master Settlement Agreement with the tobacco companies, the City of San Diego receives an annual payment of Tobacco Settlement Revenues. The City expects to receive approximately \$10.3 million in April 2006 when the next settlement payment is due. (The City is scheduled to receive money in perpetuity.) The Mayor is proposing that the Council give its conceptual approval to the City “securitizing” or bonding against that revenue stream. The City believes that it can infuse \$100 million into the pension system with the annual revenue stream of \$10.3 million. If the Council agrees conceptually with the plan today, detailed documents would return to the Council in late March.

How will the General Fund not be Affected?

- To minimize any adverse budgetary consequences from this new use of the tobacco money, the Mayor is proposing that \$10.3 million of the estimated \$18.3 million “pick up” from employee

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pension contribution savings be deposited into the General Fund. Therefore, the “loss” of the tobacco money will be offset by the addition of the employee savings to the budget. The City’s Chief Financial Officer will return to the City Council with a recommendation on how to use the estimated \$8 million difference.

What about the Policy Issues Involving the Use of Tobacco Money?

- The programmatic use of the tobacco money is a very legitimate policy discussion. But that is not the issue before the City Council today. That discussion is more appropriately held when the City Council considers the Mayor’s FY07 budget proposal in the Spring.

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